STATE OF CALIFORNIA -BUSINESS, TRANSPORTATION AND HOUSING AGENCY GRAY DAVIS, Governor

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Multifamily Housing Program (MHP)
Notice and Summary of Draft Guidelines

July 20, 2000

The California Department of Housing and Community Development (HCD) is pleased to announce the release for public review and comment draft guidelines for the Multifamily Housing Program (MHP). These guidelines are available on the "What's New" page of HCD's web site (http://www.hcd.ca.gov). Attached is a summary.

Comment Period: Any interested person may submit written comments on these guidelines. To be considered prior to adoption of the guidelines, comments should be received at the address below no later than 5 p.m. on August 11, 2000.

Authority: HCD is conducting this guideline development activity under authority provided by Health and Safety Code Section 50675.11. These guidelines implement, interpret and make specific Chapter 6.7 of Part 2 of Division 31 of the Health and Safety Code, including sections 50675-50675.11.

Impact of Proposed Guidelines: The Fiscal 2000/01 State budget appropriates $188 million to MHP. HCD proposes to adopt these guidelines in the near future and issue a Notice of Funding Availability (NOFA) on or about September 1, 2000 to solicit applications for a substantial portion of these funds.

Contact Person: Use the following addresses to present written comments on the guidelines, request hard copies, or be placed on the mailing list for funding announcements.

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Thank you for your interest in the Multifamily Housing Program.

Sincerely,

William J. Pavão
Deputy Chief

Summary of Guidelines

Background of the Multifamily Housing Program (MHP)

MHP was established in 1999 by SB 1121 (Alarcon). This program is based on similar loan programs administered by HCD a decade ago. Under these programs, which were authorized by Propositions 77, 84 and 107, over 11,000 new and rehabilitated rental units were produced with a total state expenditure of $490 million.

The Fiscal 2000/01 State budget, enacted June 30, 2000, appropriated $188 million to MHP. These guidelines will govern the initial awards of funds from this appropriation. By October 1, 2001, the department will replace them with formally adopted regulations.

Policy Goals of MHP and the Guidelines

1. To reduce administrative complexity, MHP has adopted many of the standards, rules and calculation methods of the Low Income Housing Tax Credit program (LIHTC), as administered by the California Tax Credit Allocation Committee (TCAC).

2. Two measures are proposed to achieve rational coordination with the LIHTC:

   First, and to avoid increasing competition for the already over-subscribed 9% tax credit program, HCD proposes to accept applications for projects reliant on that program only after they have received allocations of 9% credits, and only if the primary use of MHP funds is to buy down rents. HCD is planning to reserve a significant amount of MHP funds for this purpose, with applications being accepted on an over the counter basis, assuming TCAC allows credit recipients to accept a post-allocation award of MHP funds.

   Second, to encourage the production of new units under the 4% tax credit / tax-exempt bond program, and to increase the affordability of 4% credit / bond projects, HCD proposes to time its funding cycles as necessary to enable it to be used in conjunction with this program.

3. Although MHP can assist a wide range of income groups, one statutory goal is deep income targeting, for at least a portion of the assisted units. The traditional benchmark used to measure targeting is area median income. Since area median incomes vary far more than the actual incomes of those at the lowest income levels, however, HCD is proposing to measure targeting based on state median income. The specific targeted income levels are listed at the end of this notice.

4. A second statutory goal is to direct resources to projects that “address the most serious identified local housing need.” HCD has had difficulty locating consistently reliable indicators of relative need among various population groups within a given community. In the absence of better indicators, it is proposing to evaluate need based on the vacancy rate of competitive developments. HCD requests comments on this proposal.

5. MHP's enabling statute requires the program to "ensure a reasonable geographic distribution of funds." To prevent an extreme imbalance in funding between broad regions, HCD intends to specify minimal regional set-asides in the first NOFA, based roughly on population: 45 percent for Southern California, 30 percent for Northern California, and 10 percent for rural areas. Later NOFAs may specify other set-asides or offer bonus points, if needed to improve on the geographic distribution of early awards.

6. In the interest of simplicity, HCD is planning to limit MHP loans to permanent financing.

7. By statute, MHP is intended to assist transitional as well as permanent housing. This draft of the guidelines focuses on permanent housing. HCD suspects some modifications are in order to accommodate transitional housing, and requests specific comments on this subject.

8. This draft of the guidelines specifies that over-income tenants be dealt with in accordance with tax credit rules. Especially for units that are very deeply targeted, HCD has some concern that this provision will result in excessive benefits for less needy tenants. It requests comments on this subject.

Summary of Principal Guidelines Provisions

The following is a partial summary only.

<u>Affordable rents and eligible household incomes</u> may not exceed TCAC maximums, whether or not the project receives tax credits (Section 101). As noted below, rating points are given only for rents substantially lower than TCAC maximums (121).

<u>Eligible projects</u> include new transitional or rental housing developments; the rehabilitation or acquisition and rehabilitation of transitional or rental developments; or the conversion of nonresidential structures to transitional or rental housing developments. Construction work on the project must not have begun before the award date, except under specified conditions (102).

Eligible sponsors include nearly all legal entities, and may be non-profit or for-profit (102).

<u>Eligible costs</u> include acquisition, refinancing (in limited circumstances), construction and rehabilitation, offsite and onsite improvements, professional fees, costs of child-care and other service facilities linked to the assisted units, rent-up, permit fees, capitalized reserves, and other costs approved by the department (104).

<u>Loan term</u> is 55 years (105). Interest rate is 3 percent simple annual interest. Repayment of principal and interest may be deferred, except for annual payments to defray the cost of loan monitoring, which during the first 30 years will be 0.42 percent of the unpaid balance (107). <u>Maximum loan amounts</u> are $3.5 million per project, with a per-unit cap equal to $10,000 plus the amount required to buy down rents from 60% of area median income to their actual restricted level (106).

Annual distributions for assisted units are limited to $480 per unit per year, with residual cash flow after this limit is reached shared by the sponsor, HCD and any other residual receipts lenders. The exception is projects using MHP funds primarily to buy down rents, which are limited in accordance with LIHTC rules (114).

Developer fees are limited based on the number of units, with an absolute cap of $700,000. Projects using MHP funds primarily to buy down rents are limited in accordance with LIHTC rules (115).

Application process will generally be competitive, with discretion for HCD to modify under special circumstances (118).

Underwriting requirements are included in Section 120.

Project selection will include evaluation for compliance with minimum threshold criteria, and rating and ranking according to a 170-point system as follows: serving households at the lowest income levels, 35 points; addressing the most serious identified local housing needs, 15 points; development and ownership by entities with substantial and successful experience, 35 points; inclusion of units for families or special needs populations, 35 points; leverage of other funds: 35 points; readiness, 15 points (121).

The income levels and associated rents proposed for the income targeting criterion are as follows:

Maximum Income Levels for Units Earning Points for Income Targeting

	Persons in Household					
% of State Median Income	1	2	3	4	5	6
35%	$13,573	$15,512	$17,451	$19,390	$20,941	$22,492
30%	$11,634	$13,296	$14,958	$16,620	$17,950	$19,279
20%	$8,800	$8,864	$9,972	$11,638	$13,244	$14,867

The 20% figures have been adjusted for some household sizes to avoid exclusion of single SSI recipients and working CalWORKs families.

Maximum Rents for Units Earning Points for Income Targeting

	Bedrooms					
% of State Median Income	0	1	2	3	4	5
35%	$339	$364	$436	$504	$562	$620
30%	$291	$312	$374	$432	$482	$532
20%	$194	$208	$249	$288	$321	$355